

GROUNDWATER & ENVIRONMENTAL
SERVICES, INC.

FINANCIAL STATEMENTS

December 31, 2004



KARAS & ASSOCIATES, P.C.

Certified Public Accountants and Business Consultants

GROUNDWATER & ENVIRONMENTAL SERVICES, INC.

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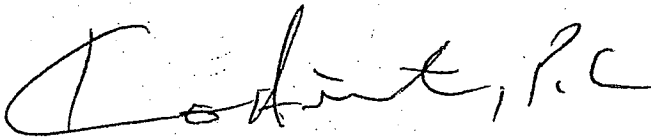
ACCOUNTANTS' REVIEW REPORT

To the Stockholders
Groundwater & Environmental Services, Inc.
Wall, NJ

We have reviewed the accompanying balance sheet of Groundwater & Environmental Services, Inc. (an "S" Corporation) as of December 31, 2004 and December 26, 2003 and the related statements of operations, stockholders' equity and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the owners of Groundwater & Environmental Services, Inc.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.



February 28, 2005

GROUNDWATER & ENVIRONMENTAL SERVICES, INC
BALANCE SHEET
December 31, 2004 and December 26, 2003
(See Accountants' Review Report)

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,522	\$ 539,922
Accounts receivable - trade	19,097,091	18,255,573
Less allowance for doubtful accounts	(343,223)	(264,339)
Work in process	4,422,396	1,166,159
Employee loans	25,590	29,099
Deposits, prepayments	391,571	120,783
Total current assets	<u>23,639,947</u>	<u>19,847,197</u>
PROPERTY, PLANT AND EQUIPMENT		
Cost	7,431,308	6,252,273
Accumulated depreciation	(5,516,467)	(4,567,708)
Net property, plant and equipment	<u>1,914,841</u>	<u>1,684,565</u>
OTHER ASSETS		
Loans - NES		100,000
Advances - affiliate	61,762	30,870
Employee loans	108,936	115,911
Deposits	19,780	49,764
Covenant not to compete	23,611	
Goodwill, net of amortization	43,300	12,000
Patents, net of amortization	3,533	3,533
Total other assets	<u>260,922</u>	<u>312,078</u>
Total assets	<u>\$ 25,815,710</u>	<u>\$ 21,843,840</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	\$ 4,675,837	\$ 4,709,178
Accounts payable	8,364,191	6,136,418
Accrued expenses	3,406,592	2,271,284
Unearned revenue		11,298
Payroll tax and other liabilities	48,636	88,905
Deferred taxes payable	3,487	3,487
Total current liabilities	<u>16,498,743</u>	<u>13,220,570</u>
LONG TERM LIABILITIES		
Loans from officers	<u>79,241</u>	<u>79,241</u>
Total liabilities	16,577,984	13,299,811
STOCKHOLDERS' EQUITY		
	<u>9,237,726</u>	<u>8,544,029</u>
Total liabilities and stockholders' equity	<u>\$ 25,815,710</u>	<u>\$ 21,843,840</u>

GROUNDWATER & ENVIRONMENTAL SERVICES, INC
STATEMENT OF OPERATIONS
Years Ended December 31, 2004 and December 26, 2003
(See Accountants' Review Report)

	2004		2003	
	Amount	%	Amount	%
FEES	\$ 77,651,984	178.9	\$ 64,356,763	169.7
Less pass through expenses:				
Subcontractors	28,759,008	66.3	22,543,626	59.5
Materials	4,791,143	11.0	3,427,546	9.0
Travel/tolls/mileage	530,991	1.2	330,715	0.9
Postage & freight	162,617	0.4	125,515	0.3
Other	1,560		3,219	
	<u>34,245,319</u>	<u>78.9</u>	<u>26,430,621</u>	<u>69.7</u>
NET FEES	43,406,665	100.0	37,926,142	100.0
COST OF FEES	<u>15,594,325</u>	<u>35.9</u>	<u>13,266,358</u>	<u>34.9</u>
Gross margin	<u>27,812,340</u>	<u>64.1</u>	<u>24,659,784</u>	<u>65.1</u>
OPERATING EXPENSES	26,923,376	61.7	23,508,197	62.0
INTEREST EXPENSE	159,799	0.4	140,080	0.4
OTHER (INCOME) EXPENSE	<u>(1,626)</u>		<u>(73,647)</u>	<u>(0.2)</u>
	<u>27,081,549</u>	<u>62.1</u>	<u>23,574,630</u>	<u>62.2</u>
NET INCOME BEFORE PROVISION FOR INCOME TAXES	730,791	2.0	1,085,154	2.9
PROVISION FOR INCOME TAXES				
Current	<u>37,094</u>	<u>0.1</u>	<u>10,692</u>	
NET INCOME FOR THE YEAR	<u>\$ 693,697</u>	<u>2.1</u>	<u>\$ 1,074,462</u>	<u>2.9</u>

The accompanying notes are an integral part of these financial statements.

GROUNDWATER & ENVIRONMENTAL SERVICES, INC
STATEMENT OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2004 and December 26, 2003
(See Accountants' Review Report)

	<u>2004</u>	<u>2003</u>
CAPITAL STOCK		
4,000 shares authorized; 4,000 issued and outstanding at stated value, of which 2,000 shares are held in the Treasury.	<u>\$ 33,000</u>	<u>\$ 33,000</u>
RETAINED EARNINGS		
Balance, beginning	9,294,346	8,219,884
Net income for the year	<u>693,697</u>	<u>1,074,462</u>
Balance, ending	<u>9,988,043</u>	<u>9,294,346</u>
TREASURY STOCK	<u>(783,317)</u>	<u>(783,317)</u>
TOTAL STOCKHOLDERS' EQUITY	<u><u>\$ 9,237,726</u></u>	<u><u>\$ 8,544,029</u></u>

The accompanying notes are an integral
part of these financial statements.

GROUNDWATER & ENVIRONMENTAL SERVICES, INC
STATEMENT OF CASH FLOWS
Years Ended December 31, 2004 and December 26, 2003
(See Accountants' Review Report)

	2004	2003
CASH FLOW FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 76,943,906	\$ 60,620,496
Cash paid to suppliers, contractors and employees	(75,966,143)	(59,840,436)
Interest paid	(146,330)	(140,080)
Interest received	15,852	7,724
Income taxes paid	(37,094)	(10,692)
Net cash provided by operating activities	<u>810,191</u>	<u>637,012</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of property, plant and equipment	10,400	
Net loans to employees	10,484	487
Advances - affiliate	(37,782)	(30,870)
Loans - NES		
Capital expenditures	<u>(1,253,352)</u>	<u>(514,748)</u>
Net cash used by investing activities	<u>(1,270,250)</u>	<u>(545,131)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit, net of repayments	34,226,000	35,438,000
Proceeds from installment loans	125,000	
Principal payments of line of credit	(34,291,178)	(35,069,200)
Principal payments of installment loan	<u>(93,163)</u>	
Net cash provided (used) by financing activities	<u>(33,341)</u>	<u>368,800</u>
NET INCREASE (DECREASE) IN CASH	(493,400)	460,681
CASH - BEGINNING OF YEAR	<u>539,922</u>	<u>79,241</u>
CASH - END OF YEAR	<u>\$ 46,522</u>	<u>\$ 539,922</u>

The accompanying notes are an integral part of these financial statements.